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WASHINGTON, D.C. UPDATE ON THE PRESIDENT'S PROPOSED FEDERAL FISCAL YEAR 2016 BUDGET

Executive Summary

This memorandum is to provide the Board with a report on President Obama's proposed $4 trillion budget for Federal Fiscal Year (FFY) 2016, which was released on February 2, 2015.

<u>The President's Proposed FFY 2016 Budget, if enacted, would increase the County's overall Federal revenue</u>. <u>This is because open-ended Medicaid entitlement funding, which accounts for over half of the County's total Federal revenue, will continue to grow over the next 10 years</u>, and there would be no reduction in other mandatory spending programs, such as Temporary Assistance for Needy Families, Title IV-E Foster Care and Adoption Assistance, and the Supplemental Nutrition Assistance Program, which account for most of our remaining Federal revenue. The vast majority of discretionary programs through which the County receives funding would be funded at or near their prior year level in FFY 2016, and far more discretionary programs of County interest would receive significant funding increases than decreases.

As in recent years, divided government and deep partisan differences will continue to be a major obstacle to enacting "must pass" budget-related bills. President Obama has significantly less influence over the Federal budget than Governor Brown because his party is in the minority in both houses and because he also lacks line-item veto authority, unlike the Governor.

Budget Overview

On February 2, 2015, the President released a proposed $4 trillion FFY 2016 budget, which would increase overall Federal spending for state and local grant programs through which the County receives Federal revenue. It would increase overall spending for discretionary programs, which are set through annual appropriations acts, by roughly seven percent ($74 billion) to $1.17 trillion in FFY 2016, eliminating the need for any across-the-board sequestration spending cuts. Mandatory (entitlement) spending would total an estimated $2.54 trillion while net interest payments on Federal debt would total an estimated $283 billion in FFY 2016.

Under the President's Proposed FFY 2016 Budget, the cumulative Federal budget deficit would be an estimated $5.67 trillion over the next 10 years, increasing from an estimated $474 billion in FFY 2016 to $785 billion by FFY 2025. Overall mandatory spending would significantly increase from an estimated $2.38 trillion in FFY 2015 to $4.11 trillion by FFY 2025 largely because the President does not propose significant reductions in Social Security, Medicare, and Medicaid -- the three open-ended entitlement programs, which, under current law, will grow significantly. The increases in Federal spending in the proposed budget would be financed by increased tax revenues, which total roughly $2 trillion over the next 10 years. The tax increases would be mostly targeted at wealthy individuals and corporations.

The President's Proposed FFY 2016 Budget, if enacted, would increase the County's overall Federal revenue. This is largely because open-ended Medicaid entitlement funding, which already accounts for over half of the County's total Federal revenue, will continue to grow over the next 10 years. It also includes numerous small Medicaid spending proposals, but only one significant proposed Medicaid cut, which will not affect the County until FFY 2025. That proposed cut would extend the Affordable Care Act's (ACA) annual Medicaid Disproportionate Share Hospital (DSH) reduction for an additional year through FFY 2025, resulting in an estimated $3.3 billion in Federal cost savings over 10 years.

There also would be no reduction in other mandatory spending programs, such as Temporary Assistance for Needy Families, Title IV-E Foster Care and Adoption Assistance, and Supplemental Nutrition Assistance Program, which account for most of the County's remaining Federal revenue. In addition, the vast majority of discretionary programs through which the County receives funding would be funded at or near their prior year level in FFY 2016. Moreover, as described later in this memo, the number of discretionary programs of County interest which would receive significant funding increases far exceeds the number which would be significantly cut.

Also of County interest, the proposed budget would provide $478 billion to reauthorize surface transportation programs for six years. Additionally, it would transfer roughly $112 billion from tax revenue from a proposal to increase taxes on accumulated foreign corporate profits to replenish the shortfall in the Highway Trust Fund (HTF), which finances surface transportation programs. Under current law, the authorization and funding for HTF-financed programs will expire on May 31, 2015.

Medicaid Budget Proposals of County Interest

The President's proposed budget includes the following Medicaid proposals of County interest, which would increase overall Medicaid spending:

- **Continuous Eligibility for Adults:** It would provide a new option to states to provide 12 months of continuous eligibility to adults who otherwise would be at risk of moving between Medicaid and Federal-subsidized health insurance coverage ("churning") due to changes in income. It would expand Medicaid eligibility at an estimated added 10-year Medicaid cost of $27.7 billion while reducing Federal health exchange subsidy costs by an estimated $23.0 billion over 10 years.

- **Home and Community-Based Waiver Services for Children:** It would allow states to provide Medicaid home and community-based waiver services to children who otherwise can only receive institutional care through a psychiatric residential treatment facility at an estimated added 10-year Federal cost of $1.6 billion.

- **Primary Care Payment Rate:** It would extend the ACA's fully Federal-funded increase in the Medicaid primary care payment rate increase to the Medicare rate level for two years through the end of calendar year 2016 at an estimated added 10-year Federal cost of $6.3 billion.

- **Tobacco Cessation Services:** These services would be required to be provided to all Medicaid beneficiaries at an estimated 10-year cost of $754 million.

The proposed budget does not include any significant Medicaid cuts affecting the County other than the one-year extension of the ACA's Medicaid DSH reduction into FFY 2025.

Other Mandatory Spending Proposals of County Interest

The President does not propose any significant cuts in other mandatory spending programs of County interest. Instead, he proposes a number of new mandatory spending initiatives or increases, including:

- **Child Care Entitlement:** It would expand child care assistance to all eligible families under age four by 2025 and increase Child Care Entitlement funding for states by nearly $82 billion over 10 years, including an increase from $2.92 billion in FFY 2015 to $6.58 billion in FFY 2016.

- **Title IV-E Prevention and Post-Permanency Services:** It would allow states to claim 50 percent Federal matching funds for evidence-based pre-placement and post-permanency services in order to prevent removals and foster care placements at an estimated Federal cost of $587 million over the next 10 years.

- **Chafee Foster Care Independence Program:** It would expand eligibility to age 23 from age 21 under the Chafee Foster Care Independence Program which provides assistance to help current and former foster care youths achieve self-sufficiency.

- **Psychotropic Medications for Children in Foster Care:** Similar to last year, a new demonstration program would be established to provide states with performance-based incentive payments to improve care coordination and reduce the over-prescription of psychotropic medications to children in foster care. A total of $750 million would be provided over five years by the Centers for Medicare and Medicaid Services and the Administration for Children and Families.

- **TANF Pathways to Jobs Initiative:** Similar to last year, a new TANF Pathway to Jobs Initiative would be established to help fund subsidized employment to low income parents with incomes below 200 percent of the Federal poverty level, which would be funded by redirecting nearly $600 million from the regular TANF Contingency Fund for which California is not eligible to receive funding.

- **Children's Health Insurance Program (CHIP):** It would extend this program through FFY 2019, which will expire at the end of FFY 2016 under current law.

Discretionary Spending Proposals of County Interest

The vast majority of programs through which the County currently receives funding would be funded at or near their FFY 2015 funding levels. The President, however, proposes significant FFY 2016 funding increases for the following programs:

- **Section 8 Tenant-Based Rental Assistance:** It would increase Section 8 Tenant-Based Rental Assistance funding by $1.82 billion to $21.12 billion in FFY 2016, including increases of $848 million for contract renewals of all existing vouchers; $492 million for rental voucher assistance to individuals and families with special needs, such as homeless families and veterans and victims of domestic and dating violence; and $490 million for administrative fees used by public housing authorities to administer the program.

- **Section 8 Project-Based Rental Assistance:** It would increase Section 8 Project-Based Rental Assistance from $9.33 billion in FFY 2015 to $10.36 billion in FFY 2016.

- **Homeless Assistance Grants:** It would increase Homeless Assistance Grant funding from $2.13 billion in FFY 2015 to $2.48 billion in FFY 2016.

- **Child Welfare Trafficking Grants:** It would provide $10 million a year to the Administration for Children and Families to award up to 10 grants of up to $1 million per grantee for five years to develop strategies to identify children and youth in the child welfare system who may be at risk of trafficking and to prevent youth from becoming victims of trafficking. These strategies would help child welfare agencies carry out new requirements to develop and implement policies for identifying and serving children who are at risk of being sex trafficking victims pursuant to the recently enacted Preventing Sex Trafficking and Strengthening Families Act of 2014.

- **Workforce Innovation and Opportunity Act (WIOA) Adult and Youth Programs:** It would increase funding for Adult Employment and Training Activities under WIOA from $776.73 million in FFY 2015 to $815.55 million in FFY 2016; and Youth Programs from $831.84 million in FFY 2015 to $873.41 million in FFY 2016.

- **Older Americans Act (OAA) Nutrition Services and Home and Community-Based Supportive Services:** It would increase funding for OAA Nutrition Services from $814.66 million in FFY 2015 to $874.56 million in FFY 2016, and OAA Home and Community-Based Supportive Services from $347.72 million in FFY 2015 to $386.18 million in FFY 2016.

- **Apprenticeship Grants:** It would provide $100 million in FFY 2016 in new funding to expand opportunities relating to apprenticeship programs under the National Apprenticeship Act. Funds would be available to the Secretary of Labor to carry out activities through grants, cooperative agreements, contacts or other arrangements with states and other appropriate entities.

- **Child Care and Development Block Grant:** It would increase child care funding for states from $2.43 billion in FFY 2015 to $2.80 billion in FFY 2016.

- **Head Start:** It would increase Head Start funding from $8.59 billion in FFY 2015 to $10.11 billion in FFY 2016.

- **Preschool for All Initiative:** Similar to last year, the President proposes a new initiative to provide all low and moderate income four year-olds with high quality preschool education that would be funded by raising the Federal tax on cigarettes and other tobacco products. It also proposes increased funding from $500 million in FFY 2015 to $750 million in FFY 2016 for the Department of Education's Preschool Development Grants.

- **Pre-Disaster Mitigation Grants:** It would increase funding for the Pre-Disaster Mitigation Grant, which is administered by the Federal Emergency Management Agency (FEMA), from $25 million in FFY 2015 to $200 million in FFY 2016.

- **Juvenile Justice State Formula Grants:** It would increase funding from $55.5 million in FFY 2015 to $70 million in FFY 2016 to support state, local, and tribal efforts to develop and implement comprehensive state juvenile justice plans.

- **Juvenile Accountability Block Grant:** It would provide $30 million in FFY 2016 for the Juvenile Accountability Block Grant (JABG). No funding for JABG was appropriated in the past two Federal fiscal years. The County previously received annual JABG allocations through a mandatory state-pass through, which were used to fund a variety of juvenile justice services.

- **Body Worn Camera Partnership Program:** It would provide $30 million in FFY 2016 for a new competitive program to purchase body worn cameras for state, local and tribal law enforcement personnel.

Similar to recent years, the President proposes to eliminate funding for the State Criminal Alien Assistance Program (SCAAP), which was funded at $185 million in FFY 2015, and to consolidate the State Homeland Security Grant Program, Urban Area Security Initiative Grant, and several other Department of Homeland Security state and local grant programs into a new National Preparedness Grant Program, which would be funded at a lower level. In FFY2014, the County received $3.4 million in SCAAP funding. In addition, the President proposes to significantly reduce funding for the following programs of County interest.

- **Community Development Block Grant:** It would reduce funding from $3.0 billion in FFY 2015 to $2.80 billion in FFY 2016.

- **Low-Income Home Energy Assistance Program:** It would decrease funding from $3.39 billion in FFY 2015 to $3.19 billion in FFY 2016.

- **Trafficking Victim Services:** It would decrease funding for trafficking victim services administered by the Department of Justice (DOJ) from $42.25 million in FFY 2015 to only $10.5 million in FFY 2016.

Other Budget Proposals of County Interest

- **Surface Transportation Reauthorization:** The President requests $478 billion to reauthorize surface transportation programs for six years through FFY 2021. Of that amount, $317 billion would be invested in highway and bridge infrastructure, an increase of nearly 29 percent above FFY 2015, and nearly $115 billion would be invested in transit systems, a nearly 76 percent increase. It also would increase funding for competitive Transportation Investment Generating Economic Recovery ("TIGER") grants from $500 million in FFY 2015 to $1.25 billion a year over the next six years. The funding increases would be financed by $238 billion in increased revenue from a proposal to raise taxes on accumulated foreign corporate profits of which $112 billion would be used to replenish the existing shortfall in the Highway Trust Fund.

- **Army Corps of Engineers Projects:** Funding is requested for the operation and maintenance of the Los Angeles County Drainage Area ($7,327,000); dredging of the Marina del Rey Entrance Channel ($3,846,000); Port of Long Beach Navigation Improvements Feasibility Study ($700,000); and Project Condition Surveys in California ($1,794,000).

- **Base Realignment and Closure (BRAC):** Similar to the last three years, the President proposes a new round of base closures through the BRAC process to eliminate military facilities the Administration considers unnecessary, and will also pursue other alternatives to reduce spending related to military facilities.

- **Retirement Coverage of Long-Term Part-Time Employees:** Employers would be required to allow long-term part-time employees (defined as employees with at least 500 hours of service in a year) to participate in a retirement plan rather than the 1,000-hour-a-year threshold for coverage eligibility under current law.

Budget Outlook

As indicated in the January 26, 2015 memorandum on the Federal Legislative Outlook and Priorities for 2015, similar to recent years, divided government and deep partisan differences will continue to be a major obstacle to the enactment of legislation this year, including "must pass" budget-related bills. Many Congressional Republicans already have expressed major differences with the President's Proposed FFY 2016 Budget. That is, they oppose net tax increases and also generally support a far greater reduction in the Federal budget deficit, which would be achieved through non-defense spending cuts, mainly in mandatory spending programs.

Congressional Republicans have indicated that they plan to approve a FFY 2016 budget resolution, which would set non-binding spending and revenue targets to guide the consideration of budget-related legislation. They also plan to include budget reconciliation instructions in the budget resolution, which could be used to reduce mandatory (entitlement) spending, make tax changes, and increase the Federal debt limit. This is important because budget reconciliation legislation cannot be filibustered on the Senate floor, and, therefore, requires a simple majority rather than a 60-vote majority to pass the Senate. A budget resolution requires joint approval by both houses of Congress, but not the President's signature.

Congressional action on the FFY 2016 budget resolution is expected to begin in the House in March, followed by Senate action after the House passes its version of the budget resolution. The statutory deadline for approving the annual budget resolution is April 15, but this deadline is often missed. In fact, a budget resolution has not been approved since 2009 when its budget reconciliation instructions were used to pass the Affordable Care Act on a 56 to 43 vote without any Republican support.

Under the United States Constitution, and Federal budget rules, the President has significantly less influence over the Federal budget than the Governor of California has over the State budget. This is largely because, unlike the Governor, the President lacks line-item veto authority. Moreover, most Federal expenditures are permanent entitlements, such as Social Security, Medicare, and Medicaid, so no legislation must be enacted in order for such entitlement programs and their funding to continue. This means that Congressional gridlock protects them from budget cuts.

We will continue to keep you advised.

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